



CALIFORNIA HEALTH AND HUMAN SERVICES AGENCY

2005-2006 Budget Proposal Summary

January 2005



Health and Human Services Agency 2005-06 Budget Proposal Summary

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The HHSA Budget Proposal Summary is also available at www.chhs.ca.gov.

Health and Human Services Agency

Overview

The Health and Human Services Agency (HHSA) oversees twelve departments and one board that are responsible for providing essential medical, dental, mental health and social services to California's at-risk residents. Services provided through Medi-Cal, Healthy Families, CalWORKs, In-Home Supportive Services, regional centers and other programs touch the lives of millions of Californians. HHSA programs provide access to short- and longer-term services and supports that promote the health, well-being and independent living of our state's most vulnerable children, adults, and families.

A fundamental test of a society is how it treats those most in need. The 2005-06 Governor's Budget recognizes the policy imperative to ensure a safety net of services for those who find themselves in need of temporary help and assistance, as well as for those with longer-term challenges that impede their ability to live independently or to become self-sufficient and self-supporting. At the same time, the Governor's Budget recognizes the fiscal imperative to contain costs and maximize efficiencies in all areas of the state's budget, including health and human services. Indeed, many of HHSA's major programs represent significant contributors to the overall growth in state expenditures since fiscal year 1998-99.

The Governor's Budget maintains a strong and responsible safety net for our state's most vulnerable residents and proposes to restructure and reform a number of HHSA programs, including Medi-Cal and CalWORKs. Proposed expenditures for fiscal year 2005-06 are \$69.8 billion from all fund sources, \$44.2 million greater than the revised 2004-05 Budget. To inform the Administration's development of program and fiscal proposals for fiscal year 2005-06, a number of guiding principles were utilized:

- **Maintain essential services to those most in need**
For example, the budget maintains eligibility of those enrolled in Medi-Cal, Healthy Families and other public health programs, including those serving persons living with HIV/AIDS; protects the entitlement to necessary services for the developmentally disabled; and maintains state-funded health, food and cash assistance programs for low-income immigrants.
- **Recognize children as a priority investment**
For example, the budget maintains Medi-Cal and Healthy Families program expansions and reforms and proposes new steps to maximize enrollment of uninsured children eligible for public programs.

- **Promote personal responsibility**

For example, proposed changes in Medi-Cal will require some recipients to modestly share in the cost of care, helping to eliminate the societal stigma associated with participating in a “free program”; and proposed CalWORKs reforms will further emphasize the responsibility of recipients to participate in programs that develop their skills to become self-sufficient.

- **Better align services and benefits with those of other large states**

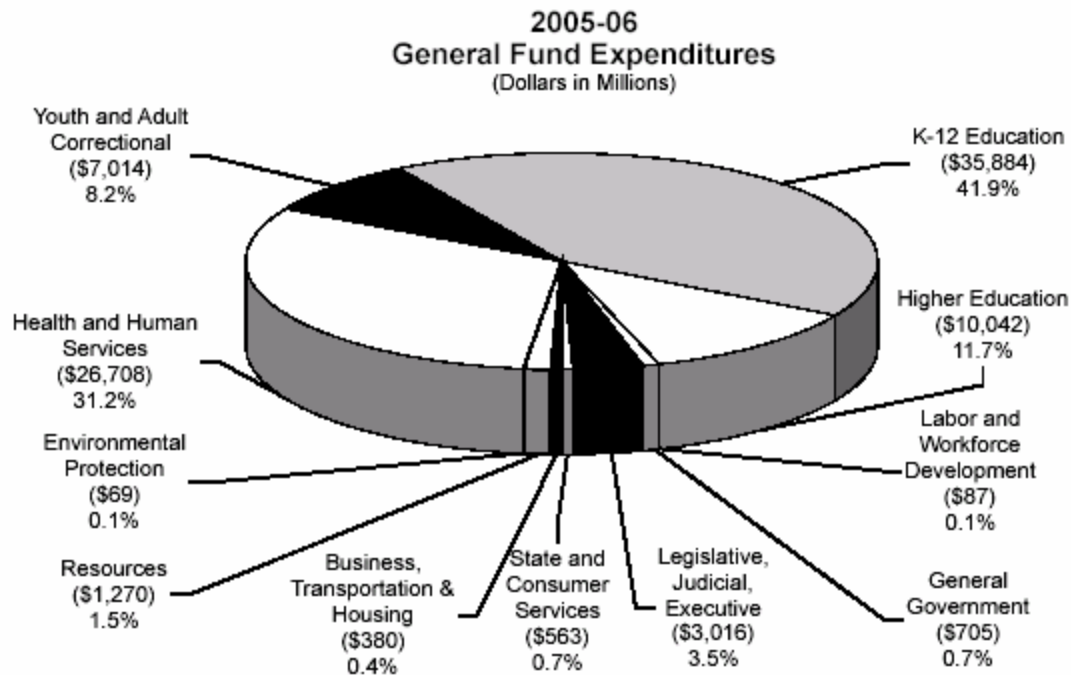
For example, CalWORKs and Supplemental Security Income/State Supplemental Payment (SSI/SSP) Cost of Living Adjustments (COLAs) will not be automatic, but will be enacted only when state revenues are sufficient; and CalWORKs grant levels, among the highest in the nation, will be modestly reduced.

- **Support structural reform of major programs**

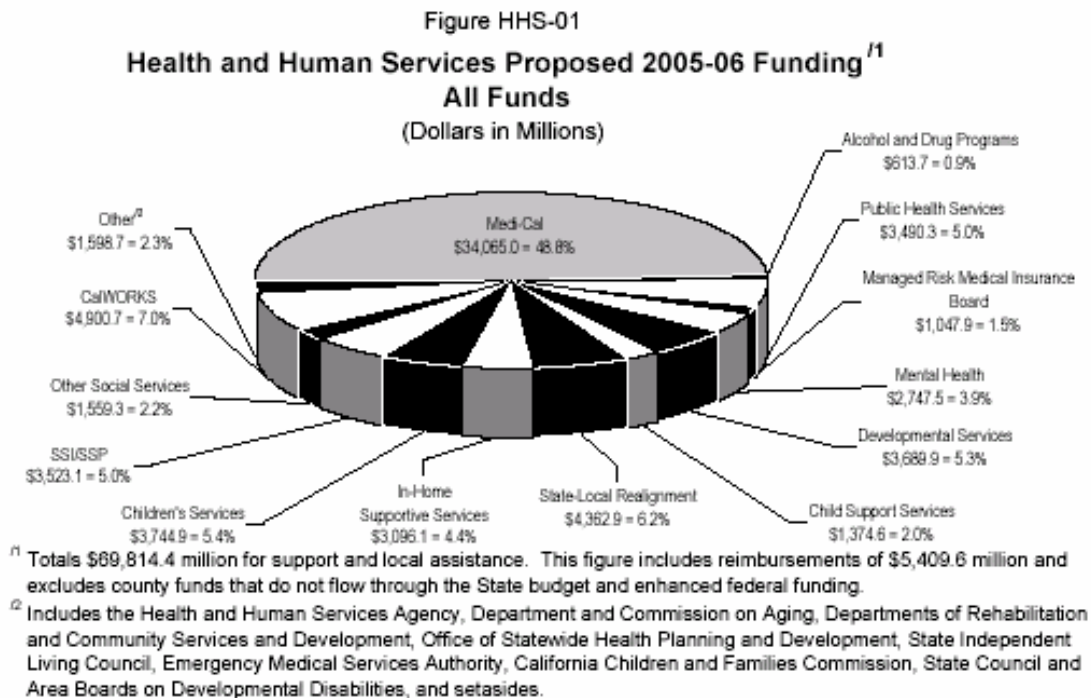
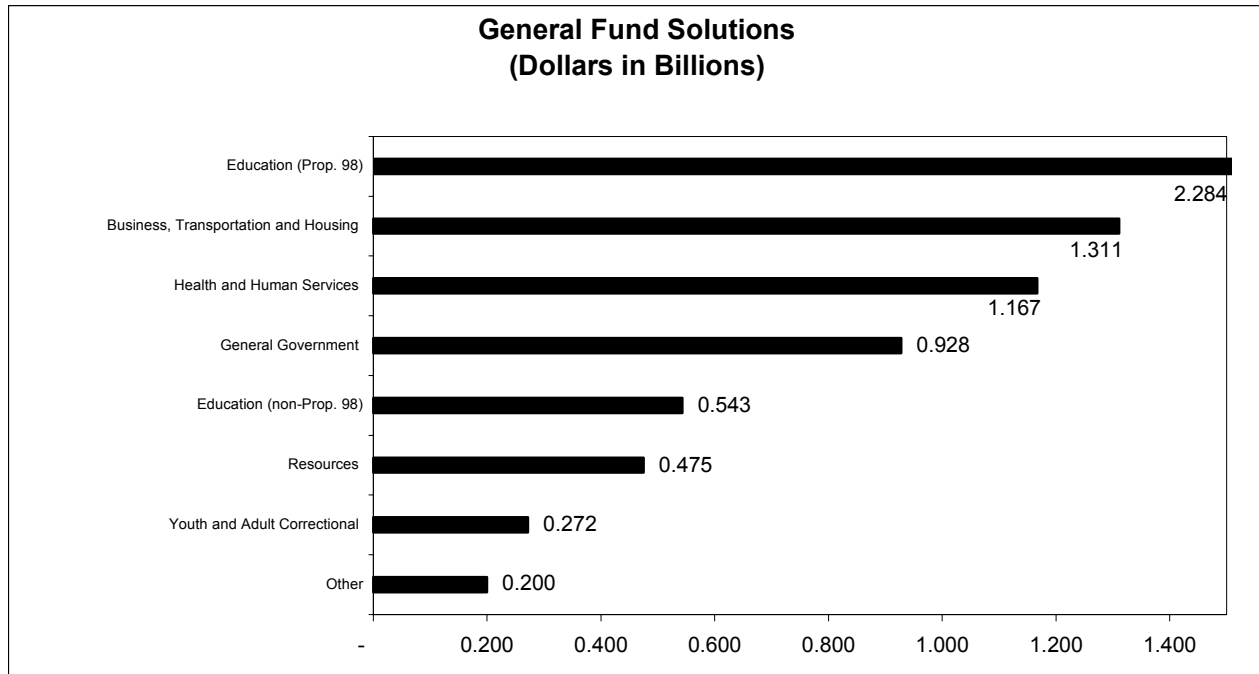
For example, the redesign of Medi-Cal will expand use of managed care to promote access to health care, improve outcomes and secure cost savings; and common sense cost containment strategies will be instituted in the purchase of services for the developmentally disabled.

2005-06 Governor's Budget Health and Human Services Agency

Traditionally, after Education, Health and Human Services (HHS) is the second largest appropriation of the General Fund. Since 1998-99, General Fund support for HHS grew from \$16.1 billion to \$31.2 billion.



Budget Solutions



Reforms and Initiatives

The 2005-06 Governor's Budget proposes reforms and initiatives that reflect the Governor's principal priorities for health and human services. These reforms represent the Governor's commitment to structural reform of the State's major entitlement programs, including Medi-Cal and CalWORKs. In addition, they represent the Governor's commitment to addressing priority health and human services issues and challenges facing our state, including the need to promote the affordability and accessibility of prescription medicines for uninsured Californians; expand health insurance coverage for uninsured children; address the growing public health epidemic posed by obesity and overweight; support the integration of older Californians and persons with disabilities in community life; and promote the safety, security and permanency of children in foster care.

The Administration is committed to engaging a diversity of stakeholders in further developing these proposals and will seek input from consumers, providers, the Legislature and other interested groups in the process.

California Rx – A Drug Discount Program for California's Uninsured

A top priority of the Governor is to provide access to affordable prescription medicines for uninsured Californians. The Governor's proposal, California Rx (Cal Rx), will provide discounted prescription drugs to California residents with family incomes below 300 percent of the federal poverty level (\$27,936 for an individual and \$56,568 for a family of four) and better access to existing free drug programs offered by drug manufacturers. Based on a voluntary, negotiated model, Cal Rx will combine the purchasing power of nearly five million uninsured Californians to make prescription drugs available at estimated average discounts in excess of 40 percent below retail prices.

Unlike prescription drugs purchased through Canadian web sites, Cal Rx will provide convenient access to medicines that are legal, approved by the federal Food and Drug Administration, and available at local pharmacies at prices competitive with those offered on Canadian web sites. Unlike unsuccessful mandatory approaches tried in other states that tie drug discount programs to the Medicaid program, Cal Rx will ensure participation from the pharmaceutical industry, receive federal approval and be implemented within a year.

The principal components of Cal Rx include:

- **Providing significant discounts to California's low-income uninsured:** Cal Rx will offer consumers an average savings of at least 40 percent below retail prices and will significantly expand access to existing free drug programs. These discounted prices are comparable to those available through Canadian web sites, but will be safe, legal and available at local pharmacies. The retail discounts will be derived from two sources:

- As a condition of participating in Cal Rx, drug manufacturers must provide their products at prices no greater than the lowest price paid by any commercial purchaser in California.¹ The Department of Health Services (DHS) estimates this requirement will generate a manufacturer discount of at least 17 percent, with an average discount of 20 percent. In addition to this guaranteed discount, DHS will negotiate additional discounts from drug manufacturers to maximize the benefits for Cal Rx participants. A number of individual pharmaceutical companies have already committed to provide discounts that exceed the benchmark price established by Cal Rx. One hundred percent of the discount negotiated by DHS will be passed on to the Cal Rx enrollee.
- Pharmacies will provide discounts similar to those they provide to most health plans and large purchasers, which will generate an average savings of approximately 15 to 20 percent off the retail price.
- **Expanding awareness of and access to free drug programs:** In addition to the discounted drugs available to Cal Rx participants, the Governor has secured a commitment from the Pharmaceutical Researchers and Manufacturers Association (PhRMA) to provide \$10 million over the next two fiscal years to fund a clearinghouse to publicize and help Californians enroll in manufacturers' free and discount programs. The clearinghouse will be accessible via the Internet and a toll-free, multilingual call center to help thousands of Californians receive prescription drugs absolutely free, thereby saving them hundreds of millions of dollars per year. This element of the program does not require legislation and will begin operating in Spring 2005.
- **Maximizing access and simplifying the process for participants:** Building on the clearinghouse function, Cal Rx will provide a user-friendly single point of entry to link consumers to existing manufacturer programs and Cal Rx discounted drugs. Cal Rx participants will be able to present their prescriptions and Cal Rx cards to their local pharmacists, and, within seconds, be directed to the best prices for prescriptions, whether through companies' free programs or the Cal Rx negotiated discount.
- **Targeting low-income uninsured Californians:** California residents without prescription drug coverage and with incomes below 300 percent of the federal poverty level (\$27,936 for an individual; \$56,568 for a family of four) will be eligible. To the extent allowable under federal law, seniors who qualify for Cal Rx will be able to purchase drugs not covered by Medicare.

¹ These purchasers include health plans, such as Kaiser, private group purchasing organizations and large retail pharmacy chains.

- **Creating a simple enrollment process:** Participants will be able to enroll in Cal Rx through their local pharmacy, physician's office or the Internet. The application will be a simple, one-page form that requires applicants to self-certify under penalty of perjury that the information they are providing is accurate. Cal Rx applicants will undergo an initial screening to determine eligibility for Cal Rx and other programs and will be referred to the program providing the lowest out-of-pocket cost for prescription medications. Cal Rx participants will pay an annual \$15 enrollment fee to defray the costs of the application.
- **Maximizing drug discounts:** In order to maximize the manufacturer discounts, DHS will seek State Pharmacy Assistance Program (SPAP) status for Cal Rx from the federal Centers for Medicare & Medicaid Services (CMS). With SPAP status, Cal Rx will be able to secure negotiated Cal Rx prices from drug manufacturers below the lowest commercial price. The Administration has held preliminary conversations with CMS and believes Cal Rx meets the criteria to qualify as a SPAP.
- **Making the federally required State contribution:** To qualify as a SPAP, California must contribute General Fund to Cal Rx. The 2005-06 Governor's Budget includes approximately \$4 million General Fund to pay for vendor contracts to process claims and applications and for staff to negotiate discounts from drug manufacturers.
- **Cal Rx implementation date:** The clearinghouse will begin operating in Spring 2005. The Cal Rx program will begin January 1, 2006.

Medi-Cal Redesign

The Medi-Cal program is a critical component of the state's safety net, providing health care services to 6.6 million children and their parents, disabled, blind and aged Californians – just under one in five of our state's residents. Medi-Cal serves a dual role in providing health care for low-income individuals while also funding California's health care system that serves the broader California population. Medi-Cal is a primary funding source for the State's mental health programs, programs for the developmentally disabled, in-home supportive services, county health services and school-based health services. Medi-Cal is also a critical funding source for the State's "safety net" providers -- hospitals and clinics that serve a disproportionate number of Medi-Cal beneficiaries and indigent patients.

While Medi-Cal is essential to our state's health care financing and delivery system, its future is threatened by spiraling costs. In the past five years, Medi-Cal General Fund costs have grown by 50 percent, primarily due to program expansions and reforms that added 1.2 million new beneficiaries since 1999, general caseload growth and health care inflation. In addition, Medi-Cal provides a range of benefits far beyond those of other states and employer-based programs. Moreover, the number of Medi-Cal beneficiaries with high-cost medical needs is growing and will continue to do so in coming years. Medi-Cal's growth, if left unchecked, threatens the State's ability to fund other critical programs.

The Governor proposes redesigning Medi-Cal to maintain health care coverage for eligible Californians, while containing costs and maximizing operating efficiencies. In the initial year of implementation, Medi-Cal Redesign will save \$29 million (\$12.3 million General Fund).

A separate document and supporting materials are available that expand on the key components of the Medi-Cal redesign proposal. This information can be found at www.dhs.ca.gov. The major goals of the program are:

- **Increase access to care and improve health outcomes through managed care expansion:** Expand managed care on a geographical and population basis. Families and children in as many as 13 additional counties will enroll in managed care plans, seniors and persons with disabilities will enroll in managed care plans in all 28 counties in which managed care is available and acute and long-term care integration (medical and social services) projects will be implemented in three counties and will utilize a Long-Term Care Diversion and Assessment Protocol to assess and divert individuals from costly long-term nursing facility care.
- **Stabilize the financing of California's safety net hospitals:** Pursue a new five-year Medi-Cal hospital financing waiver from the federal government to replace the current waiver expiring June 30, 2005. Major components of this waiver include continuing contracts with selected hospitals, replacing intergovernmental transfer funding with federally acceptable sources of funding, preserving hospital financing

for the uninsured irrespective of whether Medi-Cal beneficiaries are served through fee-for-service or managed care and replacing the current funding methods with new systems that create opportunities to draw down additional federal Medicaid dollars.

- **Modify the Medi-Cal benefit package:** Align the Medi-Cal dental package provided to adults with private employer-based and public sector health coverage programs by placing a limit on adult dental services. This limit will be \$1,000 in a 12-month period, but will not apply to federally mandated dental services and emergency services. This modification in dental benefits will cover the majority of dental needs, including the cost of dentures.
- **Establish beneficiary cost sharing:** Implement monthly premiums to more closely align Medi-Cal with private coverage and other public programs such as Healthy Families. The premiums only will apply to individuals with incomes above 100 percent of the federal poverty level, or for seniors and persons with disabilities, those with incomes above the SSI/SSP level. Premiums will be \$4 per month for each child under age 21 and \$10 per month for adults with a monthly premium cap of \$27 per month per family. Individuals with incomes below the federal poverty level and certain other populations, including those participating in the share of cost program, will be exempt from this proposal.
- **Improve eligibility processing for children:** Streamline the Medi-Cal eligibility determination process for children whose applications are submitted through the Healthy Families program vendor, known as the Single Point of Entry. Instead of forwarding Healthy Families applications for children to counties for processing, vendors assisting families with applications will process those applications. The single point of entry creates a centralized one-stop center for Medi-Cal preliminary eligibility determinations for children. Federal law requires a government employee to certify eligibility for Medi-Cal, thus the State will certify the eligibility determinations made by the vendor.
- **County performance standards monitoring:** Secure vendor services to monitor county compliance with federal and state performance standards pertaining to eligibility determinations and annual redeterminations. Currently, counties annually self-report compliance with all performance standards. However, there is no state verification of these efforts. As an operating efficiency, the state will secure a contractor to ensure counties maintain a given level of compliance with the performance standards and will impose fiscal sanctions for failure to comply.

Expanding Children's Health Insurance

The Governor believes that access to appropriate health care services is essential to a child's success in school and in life. Ensuring that every child in California has health insurance remains a high priority for the Administration. Reflecting the priority placed on this objective by the Governor, the 2005-06 Budget protects program expansions and reforms enacted earlier this decade that have increased health coverage for low-income children. These efforts have helped insure hundreds of thousands of children in the state's Medi-Cal and Healthy Families programs and decreased the number of uninsured children in California by more than 400,000 since 2001.

Notwithstanding the State's significant progress in reducing the number of uninsured children, enrollment in Medi-Cal and Healthy Families has slowed, even though experts estimate that approximately 431,000 uninsured children remain eligible for one of these programs. Reflecting both the imperative to expand children's health insurance coverage as well as the reality of California's continued fiscal challenges, the Administration proposes a number of targeted reforms to maximize enrollment in Medi-Cal and Healthy Families, improve the retention of children already enrolled and support county-based efforts for children not eligible for state programs.

- **Improve outreach and enrollment by restoring Healthy Families/Medi-Cal Application Assistance:** Because of the State's fiscal crisis, funding for Healthy Families and Medi-Cal education, outreach and application assistance was eliminated in recent years. Previous experience demonstrated that payments to Certified Application Assistants improved the quality of applications and facilitated enrollment in Medi-Cal and Healthy Families. During the two years without payment for application assistance, enrollment in Healthy Families leveled off, the quality of the applications submitted deteriorated significantly and a higher rate of disenrollment at the annual eligibility review occurred.

The Administration proposes spending \$14.5 million (\$5.9 million General Fund) to re-establish application assistance fees for successful Healthy Families and Medi-Cal applications. The Managed Risk Medical Insurance Board (MRMIB) estimates this will add 15,000 children to Healthy Families in 2005-06 and 30,000 additional children in future years. MRMIB will seek urgency legislation to authorize the program in the current year, which would also increase the Healthy Families caseload in 2004-05.

- **Facilitate enrollment by revising the joint Healthy Families/Medi-Cal application:** To further reduce barriers to families applying for Medi-Cal and Healthy Families, the Administration will update the joint Medi-Cal/Healthy Families application form for the first time in five years. These revisions will improve the application layout and design, include an authorization form to release information to certified application assistants and make it more user-friendly. The new form will be easier for parents to complete, thereby increasing enrollment in Healthy Families and Medi-Cal for uninsured children.
- **Improve retention of children transitioning from Medi-Cal to Healthy Families through performance standards:** Under State law, children no longer eligible for Medi-Cal because of their family's increase in income are given one month of additional Medi-Cal coverage to allow time for the family to complete the Healthy Families application. This extra month of eligibility is referred to as the "Bridge." Counties are required to forward applications to Healthy Families when children are eligible for the Bridge, but most eligible children are never enrolled in Healthy Families because few counties forward the applications.

The Administration proposes to establish Medi-Cal/Healthy Families Bridge Performance Standards that will use Medi-Cal eligibility determination and annual re-determination performance standards to ensure that counties comply with the Bridge requirements.

MRMIB estimates 10,000 additional children will be served in 2005-06 and 27,000 additional children in future years. The Governor's Budget includes \$5.6 million (\$2.1 million General Fund) to establish the Medi-Cal/Healthy Families Bridge Performance Standards.

- **Provide assistance to county initiatives - Healthy Families buy-in:** A growing number of counties have established county initiatives to provide low-cost health coverage to children not eligible for Medi-Cal or Healthy Families. To help support these local efforts, the budget proposes funding to enhance MRMIB's capacity to provide technical assistance to counties that are attempting to establish stand-alone "Healthy Kids" programs. The proposed positions will also work with interested counties to develop a Healthy Families buy-in option in which counties could transfer local funds to Healthy Families and have their Healthy Kids-eligible children participate directly in Healthy Families. The positions, which will be established in the current year, will be funded by the First 5 California Children and Families Commission, which will provide MRMIB the 35 percent state share needed to obtain federal financial participation.

California Obesity Initiative

Over the last decade, Californians have gained 360 million pounds. One out of three California children, ages 9 to 11, are overweight or at risk of being overweight. Experts estimate that one in three children born today will develop diabetes during their lifetime, if current trends persist. Among adults, obesity is growing faster in California than most other states. Over half of all California adults are overweight or obese. Only 36 percent of California adults engage in the minimum recommended level of physical activity and only 41 percent of teens meet minimum daily targets for physical activity.

Fueled by environmental forces and individual choices that lead to unhealthy eating and physical inactivity among Californians, obesity threatens to surpass tobacco as the leading cause of preventable death. In fact, a Rand Corporation study found that obesity leads to more chronic health conditions than tobacco or alcohol, causing or exacerbating debilitating and sometimes fatal diseases, such as diabetes and heart disease.

Obesity is not just a matter of personal health. It is a costly public health concern that affects economic productivity and government budgets. This year, it is estimated that obesity will cost the overall California economy an estimated \$28 billion in lost productivity, health care and workers' compensation costs. It will cost public health programs (Medi-Cal and Medicare) nearly \$2 billion.

A bold change of direction is needed to reverse the obesity epidemic. Changing the environmental forces and individual choices that lead to unhealthy eating and physical inactivity will require commitment and action from state and local government, schools, businesses, health care providers and others. The Governor is committed to providing leadership to effectively prevent obesity in California. To this end, the Administration proposes a comprehensive obesity prevention framework that includes:

- Improving the nutritional quality of food and beverages offered on school campuses and increasing opportunities for physical activity;
- Increasing access to obesity prevention and intervention services in public and private health plans;
- Supporting the planning and design of healthy local communities;
- Encouraging increased physical activity and healthier eating in workplaces;
- Recognizing obesity prevention as a statewide health priority through public education and outreach, including a Governor's Summit on Healthy Eating and Physical Activity.

The Governor's Budget includes \$6 million General Fund to get California moving to a better state of health. Specifically, the funding will support the following:

- **Health Quality Improvement Project (\$1.4 million):** The project will support collaborative efforts by health care providers, community-based nutrition and physical activity resources, local health departments and Medi-Cal managed care plans to develop and implement comprehensive obesity prevention and weight management services for Medi-Cal enrollees. DHS will fund projects in up to six Medi-Cal service areas. The projects will work to increase nutrition and physical activity counseling by primary care providers, ensure appropriate referral and treatment for overweight and at risk for overweight children and promote breastfeeding. Some projects will provide enhanced child weight management services, such as assessment and referral, family intervention, care coordination and integration with community nutrition and physical activity resources.
- **Community Action Projects (\$3.6 million):** This initiative will support local projects to improve access to healthy food and make California communities more conducive to physical activity. It will build on successful tobacco control models by providing additional resources to coalitions that are actively working to increase healthy eating and physical activity in their communities. DHS will target funding to sites that have examined their communities, developed an action plan and are prepared to provide health policy input into local planning decision making. Coalitions will be funded to work on many aspects of obesity prevention, including improved access to fresh fruits and vegetables, school-based efforts, community access to schools and other existing recreation facilities and community safety to promote greater outdoor physical activity.
- **Worksite Wellness Initiative (\$150,000):** Leveraging federal funds and building on existing worksite wellness programs, DHS will develop and implement a low-cost employee wellness program to promote and enable healthy eating and physical activity at DHS. The program will include guidelines for healthy foods in vending machines and improved access to stairwells. Funding will also support the development and implementation of wellness efforts across state government and the State's efforts to increase the number of California workplaces offering employee wellness programs.
- **Enhance State Capacity to Effectively Prevent Obesity (\$900,000):** The Governor's Budget builds on California's existing nutrition, physical activity and obesity prevention efforts by improving coordination, conducting evaluations to better target resources and increasing communications capacity. Building on tobacco control efforts, the budget provides contract funding to develop and implement surveillance, evaluation and a research plan to test innovative strategies, identify best practices and evaluate cost effectiveness. Funding will also support creation of an obesity prevention coordinating office within DHS to assure state and federal obesity prevention resources are used effectively. Lastly, the budget provides contract funding for communications support to proactively work with the media and entertainment industry on coverage of obesity-related topics and the larger prevention agenda and to actively work with the news media on obesity-related issues.

California Olmstead Plan

The Administration fully supports the principles underlying the *Olmstead* decision, which, through a U.S. Supreme Court decision, requires state and local governments to make concerted efforts to ensure persons with disabilities can live in the least restrictive setting possible. As such, the Administration is committed to making changes in State policies and programs necessary to ensure that older Californians and persons with disabilities have appropriate access to and choices of community-based services and placement options. For too long, too many individuals with disabilities and seniors have been placed unnecessarily in an institutional setting, adversely impacting their everyday life, family relations, work options, economic independence and personal growth.

The Administration takes seriously the importance of further developing and strengthening a community-based system of care to support integration of persons with disabilities in community life. Examples of the Administration's commitment include protection of the Lanterman Act, which entitles disabled individuals to services that support their ability to live independently in the community, notwithstanding the state's continued fiscal challenges; the plan to close Agnews Developmental Center and integrate developmentally disabled residents into the community; federal approval of a waiver proposed by the Governor to secure additional federal resources to support the In-Home Supportive Services program that enables fragile residents to remain in their homes; and the Governor's Executive Order establishing an Olmstead Advisory Committee to inform the Administration's efforts to advance the state's Olmstead Plan.

New opportunities to advance the goals of *Olmstead* are reflected in the Governor's proposal to redesign the State's Medi-Cal program, the recent enactment of Proposition 63, the Mental Health Services Act, and innovative new models for purchasing services for the developmentally disabled.

Listed below are a number of initiatives included in the Governor's Budget that support the goals of the state's Olmstead Plan. Each of these initiatives is explained in the following pages:

- Medi-Cal Redesign: Acute and Long-Term Care Integration Pilot Projects and Diversion and Assessment Protocol
- Proposition 63: Mental Health Services Act
- Agnews Developmental Center Closure
- Self-Directed Services within Regional Centers

Medi-Cal Redesign: Acute and Long Term Care Integration Pilot Projects and Diversion and Assessment Protocol

As part of Medi-Cal redesign, DHS will implement Acute and Long Term Care Integration (ALTCI) projects in Contra Costa, Orange and San Diego counties. Individuals in these counties who are Medi-Cal eligible will be enrolled in either a managed care plan or an acute and long term care integration plan. The acute and long term care integration plans will offer a comprehensive scope of services that manages the full continuum of care, including interdisciplinary care management, primary care, acute care, drugs, emergency care, dental services, home and community-based services and long term care. These projects will offer individuals greater choice and support to meet their identified health care needs.

As a part of the ALTCI projects, DHS will contract with a vendor to develop a Long Term Care Diversion and Assessment Protocol for seniors and persons with disabilities. The protocol will provide the ALTCI projects with a uniform assessment protocol and data set to allow individuals to select home and community-based services instead of nursing facility care whenever possible. The ALTCI care management team will complete the protocol when a participant begins to have chronic care needs that may affect their ability to live independently. Once validated, the protocol can serve as the model for all managed care plans prior to long-term placement of individuals into institutions. If implemented effectively, the Protocol will improve clients' satisfaction with their care, reduce long-term care costs under Medi-Cal and ensure that seniors and persons with disabilities receive the care they need in the least restrictive environment possible.

The protocol will be developed with input from stakeholders, including consumers, advocates and representatives from home and community-based programs, and will require testing and validation prior to finalization. Development and implementation will occur over two years once the contractor has been selected. The development and implementation of the ALTCI projects and the protocol are consistent with the Governor's commitment to implement the *Olmstead* decision by offering choice to individuals and providing services in the least restrictive setting.

Proposition 63: Mental Health Services Act

The passage of Proposition 63, the Mental Health Services Act (MHSA), provides the Administration with the opportunity to transform the way that mental health care is conceptualized and delivered in California. Consistent with the Act, the Department of Mental Health (DMH) will provide leadership and oversight as county mental health departments use this new revenue stream to renovate California's mental health system. The goal is to create a state-of-the-art, culturally competent system, promoting recovery and wellness for adults and seniors with severe mental illness, as well as for children with serious emotional disorders and their families.

As outlined in the MHSA, the Administration will pursue the following goals:

- Reduce the long-term adverse impact of untreated serious mental illnesses on individuals, families and state and local entities;
- Expand models of successful, innovative service programs that provide outreach and integration, including culturally and linguistically competent approaches for underserved populations;
- Invest funds in the most cost-effective manner and provide services identified as best practices;
- Reduce the stigma associated with being diagnosed with mental illness or seeking mental health services.

Although these goals will be implemented over several years, several specific objectives are being pursued in the current year, including:

- Assessing each county's mental health workforce and service needs;
- Assisting counties with the development of customized, three-year local implementation plans;
- Establishing the Mental Health Services Oversight and Accountability Commission, as required in the MHSA;
- Allocating funds to counties to begin implementation of the MHSA;
- Collaborating with other state departments to determine their roles in implementation.

To meet these objectives, DMH has convened the first in a series of stakeholder meetings to obtain input on the development and establishment of implementation priorities. While DMH's initial focus is on establishing the process for the development and approval of the local plans, it is also exploring opportunities to immediately implement programs to provide services. DMH will be providing additional information on its web site (www.dmh.ca.gov) and through outreach to stakeholder groups about future meetings and opportunities to provide input.

Agnews Developmental Center Closure

The Administration is releasing the closure plan for the Agnews Developmental Center in conjunction with the Governor's Budget. Initially slated for closure in July 2006, Agnews is now proposed to close in July 2007 in an effort to expand the range and type of community-based services available and avoid the unnecessary transfer of Agnews residents to another developmental center. The goal of the Administration's closure plan is to transition residents to safe and stable homes in the Bay Area near their families and to ensure ongoing quality of care.

The plan will achieve the goal of a deliberate, responsible transition by:

- Developing permanent housing for persons with developmental disabilities;
- Creating innovative new program models to provide appropriate services and support to enable Agnews clients to reside in the community;
- Temporarily using existing Agnews staff in the community to provide continuity of care and support to Agnews residents and new community service providers;
- Implementing a comprehensive quality management system to monitor consumer outcomes and satisfaction, provider performance and regional center oversight.

The innovative housing and service capacity-building components of the closure plan hold the promise of not only enabling Agnews residents to live safe and healthy lives in the community, but of providing a blueprint for the future transition to community living for other developmental center clients. The Administration is committed to successful implementation of this plan. To that end, the 2005-06 Governor's Budget includes \$36.9 million (\$27.1 million General Fund) for closure plan activities.

Self-Directed Services within Regional Centers

The Administration is proposing a statewide expansion of the self-determination pilot projects currently being implemented by five regional centers. An Independence Plus Waiver will be submitted in the current year by the Department of Developmental Services (DDS) to the federal Centers for Medicare and Medicaid Services for approval. The Self-Directed Services Program represents an innovative and alternative model to the purchasing of regional center services. It enables consumers to be in control of their services through management of a finite amount of funds to be used to pay for services specified in the consumer's Individualized Program Plan (IPP).

Elements of this innovative program include:

- Enabling consumers and their families to choose which services and support mechanisms to purchase from a comprehensive array of services;
- Establishing an individual budget "account" in a fair, transparent and equitable manner for the purpose of purchasing services;
- Providing support by community-based entities to secure needed services, as well as help determine if prospective service providers have proper qualifications;
- Establishing set-aside funding for unanticipated consumer needs.

Net General Fund savings from this proposal are expected to exceed \$1 million in 2005-06.

Transitioning from Welfare to Work

CalWORKs is the state's largest cash assistance program for children and families, providing cash assistance on a time-limited basis to meet the basic needs of families during times of crisis. The long-term goal of CalWORKs is to promote self-sufficiency by establishing work requirements and providing the necessary service and supports for individuals to become self-sufficient and self-supporting.

Since the 1998 enactment of California's Temporary Assistance to Needy Families Program (TANF), known as CalWORKs, the state has instituted strong incentives for welfare recipients to enter the workforce and has made large strides in decreasing the number of people on public assistance. Caseloads have decreased by 33 percent and work participation has increased significantly. However, California ranked below the national average in work measures for Federal Fiscal Year 2003 and the overall employment rate, an important performance measure, declined from 46.6 percent in 2000 to 36.3 percent in 2003.

To promote personal responsibility and self-sufficiency, CalWORKs contains a wide variety of options for participants and affords substantial flexibility to counties so their programs meet local priorities and participant needs. Additionally, California allows people with relatively high earnings to remain in the program in order to provide an incentive to work and increase their wages. By design, California's approach has resulted in longer program participation, higher earnings among recipients and "safety net" protections for children whose parents are removed from aid due to time limits or failure to comply with program requirements.

A number of important reforms were enacted as part of the 2004 Budget Act to strengthen the CalWORKs program and its emphasis on work participation and personal responsibility. By establishing welfare to work plans for all participants, requiring work and work-related activities to meet participants' weekly hour requirements and tying participation in educational activities more closely to specific employment outcomes, these reforms helped advance the Administration's commitment to structuring CalWORKs to further promote work and self-sufficiency.

The 2005-06 Governor's Budget proposes to build upon the reforms of 2004 in order to increase participation in the workforce, maintain services necessary to transition recipients into work and maximize available resources. The Administration proposes a combination of reforms and savings proposals in the 2005-06 budget in order to achieve these objectives. Highlights of these reforms include:

- **Pay for Performance:** The CalWORKs program operates as a block grant with a minimal share of cost for counties. While this approach provides counties with significant flexibility in the design of local programs, counties have limited incentives to operate local programs in a maximally cost-effective and efficient manner. Indeed, there is significant variability in program outcomes across the counties. To ensure that the flexibility afforded counties in managing their CalWORKs programs

is complemented by clear accountability, the Administration supports creating a new Pay for Performance program. Under Pay for Performance, counties will be offered incentives to encourage, develop and implement strategies that effectively help participants obtain work and achieve self-sufficiency. By increasing the number of working participants, Pay for Performance will reduce dependence on aid, leading to lower grants costs and an estimated savings of \$22.2 million.

Beginning in 2005-06, the Department of Social Services (DSS) will establish performance goals for county employment rates and work participation rates. In 2006-07, the high performing counties that meet their performance goals will be rewarded with additional resources reinvested from counties that do not meet these goals. The Pay for Performance payments will be based on annual county employment rates and work participation rates. These payments will be competitive and limited to performance above a DSS standard. DSS will seek county input in the development of the performance measures.

- **Strengthening work requirements:** Following an assessment of CalWORKs sanction policies, the Administration will propose changes to further strengthen work requirements as part of the May Budget Revision. Additional savings of \$12 million will be achieved as the Administration builds upon the reforms implemented in 2004-05 and the emphasis on work is increased.

Easing Transition from Foster Care and Improving Children's Services

The Governor's Budget includes \$4.8 billion, a 4 percent increase over the 2004 Budget Act, for a comprehensive system of supportive services, out-of-home care and adoption services for children who are either at risk of or have suffered abuse or neglect. Child Welfare Services (CWS) include services to protect children and reunite families when possible or to find alternate permanent families for children when they cannot return home safely. The Governor's Budget includes \$2 billion (\$645.1 million General Fund) for county social workers to provide case management, coordinate treatment services for children and their families and monitor progress. The Foster Care Program provides cash payments for out-of-home care for children that have been placed with other families due to abuse or neglect. The Governor's Budget includes \$1.8 billion (\$446 million General Fund) for foster care grants and administration.

The Governor's Budget recognizes the need for program and system changes to ensure that children remain safe until they can be returned to their own home or placed in another permanent home. Central to reform are needed improvements to monitor child and family safety and well-being and progress toward improved outcomes.

- **Caring for foster children:** Foster care is intended to be temporary so children are safe until they can be returned to their own home or placed in another permanent home. Current data show a leveling of the foster care caseload. However, many children stay in foster care for extended periods of time, frequently until they are 18 years of age. These children are often placed in multiple foster care arrangements, making it extremely difficult to adapt to normal family living.

Children and youth who live most of their lives in foster care and exit at age 18 face tremendous challenges. Half do not finish high school and about 30 percent become dependent on public assistance. Another 20 percent will spend time in jail. These young adults have not had the opportunity to develop strong family connections and often have no meaningful connection with an adult. Frequently, they have not had the training needed to get a job and have no plans for stable housing.

The Administration is eager to work with its county welfare partners and with local communities to identify creative ways to actively support children in need. The Administration recognizes the resourcefulness and creativity that exist in local communities and intends to seek out strategies and programs that have had positive results and identify community resource options to provide additional support.

- **Improving child welfare services:** The Governor's Budget proposes continuing and expanding important systemic changes begun in 2004-05. Specifically, the Administration proposes an additional \$14 million to expand the implementation of a Standardized Safety Assessment System, a response system that recognizes the unique nature of each child welfare referral, and enhanced permanency and youth

transition standards into additional counties. These program enhancements are critical to improving outcomes and ensuring the safety of children.

CWS has evolved into an outcome-focused program through the successful implementation of the new Outcome and Accountability System. Success is measured in terms of improving the safety, permanence and well-being of the children and families served. The state has begun to publish regular reports on state and county performance, bringing public scrutiny and accountability to CWS. In an effort to increase local accountability and promote the effective use of available resources, legislation will be proposed to require counties to share in the repayment responsibilities if penalties are assessed as a result of federal performance reviews.

Additionally, all counties have completed self-assessments of their performance and identified areas needing improvement. Counties have developed plans that outline specific actions needed to improve performance and these plans are being reviewed to determine how to invest available resources. Over the course of the next several months, the Administration will work with counties and other stakeholders to review the county plans and develop a Spring 2005 budget proposal that balances the reality of the state's continuing fiscal challenges with the need to improve outcomes for children.

Highlights of HHSA Solutions

The ongoing fiscal challenges facing California require that state expenditures be brought under control and that all General Fund expenditures be scrutinized to help bring the budget into balance. The Governor's Budget reflects this imperative and proposes reforms, reductions and savings across all state agencies, including Health and Human Services.

The growth in health and human services expenditures has been a significant contributor to the overall growth in state expenditures. Since Fiscal Year 1998-99, the Health and Human Services Agency budget has grown from \$41.4 billion to \$69.8 billion (\$16.2 billion to \$26.6 billion General Funds). Expenditure growth has been driven by a number of factors, including program and policy changes enacted in the first part of the decade, caseload growth and health care inflation.

The state's fiscal challenges require the Administration to bring overdue attention to the need to reduce expenditures in health and human services. Our policy challenge is to implement strategies to better manage and control health and human services costs while maintaining services critical to the health and well-being of California's most vulnerable and at-risk residents.

The 2005-06 Governor's Budget includes more than \$1.2 billion in General Fund savings. The complete list of proposed reductions and reforms are attached as Appendix A.

The savings proposals reflect the principles noted earlier in the overview section of this document:

- Maintain essential services to those most in need
- Recognize children as a priority investment
- Promote personal responsibility
- Better align benefits and services with those of other large states
- Support structural reforms of major programs

The following highlights represent the major savings proposed in the Governor's Budget.

Major Solutions within the Department of Social Services

The Department of Social Services (DSS) administers programs that provide grants and services to more than 2.7 million of the state's most vulnerable residents and their families. At \$16.8 billion (\$8.5 billion General Fund), DSS is responsible for one of the largest social services budgets in the nation. Most of the DSS' programs are state-supervised and county-administered.

The Administration recognizes the importance of ensuring a safety net of services and supports to individuals and families who cannot care for themselves. Accordingly, the DSS budget includes a total investment of \$4.8 billion for services to children (in addition to CalWORKs) and approximately \$7 billion for vulnerable adults and individuals with disabilities. Importantly, the Governor's Budget does not propose any changes in eligibility for social services programs.

Notwithstanding the continued priority the Administration places on protecting eligibility for social services programs, the Governor's Budget proposes a number of reductions and reforms. These savings proposals reflect the fact that California's programs offer some of the most generous benefits in the nation and, in recent years, costs have outpaced both caseload growth and the state's ability to pay.

Consistent with the principles that guided development of the HHSA budget broadly, the proposed DSS budget reductions and reforms reflect a priority on maintaining program eligibility for services to children and adults, as well as individuals with disabilities who need assistance to care for themselves; better benchmarking of programs to comparable programs in other states; elimination of automatic Cost of Living Adjustments (COLA) that fail to account for the state's financial ability to pay; and stronger emphasis on personal responsibility and work participation.

- **CalWORKs**

As previously mentioned, CalWORKs, the state's largest cash-assistance program for children and families, provides temporary cash assistance to meet a family's basic needs (shelter, food and clothing) in times of crisis. Despite early success in getting participants into work activities and reducing caseloads, work participation rates have declined in recent years and the decrease in caseloads has been less than in other states. Historically, California has provided some of the most generous cash benefits in the nation. In addition, CalWORKs offers support and services beyond federal requirements and allows participants to receive grants while earning a higher income than most other states allow.

The CalWORKs program is funded by a combination of a fixed federal block grant and a required state contribution (federal maintenance of effort level). Under current state law, CalWORKs recipients receive an automatic COLA to their grant each year, contributing to increasing program costs and pressure on the fixed resources. Unless changed, the automatic COLA will continue to increase grant levels and total grant expenditures will consume a larger percentage of the fixed resources. If the grant levels are rolled back to levels prior to the institution of automatic COLAs, such as in 1998-99, an additional \$700 million would be available for services, training and supports to transition recipients to work.

Fiscally, California can no longer afford the automatic increases in grant levels required by annual COLAs. Programmatically, the state must find ways to increase the focus on workforce participation and facilitate the transition of recipients from welfare to work.

Key components of the CalWORKs budget include:

- **Eliminate annual COLA:** California is the only state in the nation with a law requiring an annual welfare COLA, regardless of the availability of state funds. While COLAs should be provided when adequate resources are available, state law must provide flexibility in applying a COLA to CalWORKs grants. The Administration proposes elimination of the annual CalWORKs COLA, resulting in a savings of \$163.8 million in 2005-06, and will seek a legislative change to the mandatory annual COLA requirement.
- **Reduce CalWORKs grants:** CalWORKs grants have risen to become the second highest grants offered in the nation. The Governor's Budget proposes reducing CalWORKs grants by 6.5 percent to slightly lower than 2001-02 levels, from a maximum of \$723 to \$676 per month. This proposal better aligns benefit levels with other states and recognizes the need to prioritize funding for services that move recipients into the workforce. This reduction will save \$208.5 million in 2005-06. Even with this reduction, California's grant levels would be the fourth highest in the nation.
- **Reduce the earned income disregard:** Compared to other states, California has one of the most generous income disregard policies in the nation, allowing CalWORKs participants to earn income while continuing to receive cash assistance. The Governor's Budget maintains this incentive to work, though proposes a modest adjustment to the amount a participant can earn before losing benefits. The proposal will allow families to earn \$200 and 40 percent of the remaining earned income rather than the current \$225 and 50 percent. This change will allow funding for essential services necessary to transition recipients into the workforce. The proposal will result in a net savings of \$79.5 million in 2005-06 and \$109.3 million annually thereafter.
- **Suspend Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA:** The federal SSI grant provides monthly cash assistance to eligible aged, blind and disabled persons. Less than half of the states, including California, augment the federal grant with SSP. Between 1998-99 and the 2004 Budget Act, SSI/SSP program costs have increased by \$1.2 billion, or 55 percent, while caseloads have increased only 14.5 percent. Current state law mandates an annual COLA on the state SSP portion of the grant and prohibits a reduction of the state grant to offset federal increases in the federal SSI grant, regardless of the state's fiscal status.

California's SSI/SSP benefit level is second only to Alaska and California is one of only a few states with a law requiring an annual COLA to its SSP. If California's SSP benefit level had not automatically increased each year since 1998-99, expenditures would be \$791 million lower in 2005-06.

In 2004-05, modest savings were achieved by delaying the state grant increases by three months. Although these delays resulted in the savings, nothing has been done to address the ongoing challenge that automatic COLAs in the SSI/SSP program present.

Given the state's severe fiscal constraints, the Administration proposes eliminating the statutory requirements to provide COLAs and to withhold the January 2006 State SSP COLA of 4.6 percent and the pass-through of the January 2006 federal SSI COLA of 2.3 percent, for a savings of \$258.9 million in 2005-06 and \$517.8 million annually thereafter.

The Governor's Budget provides \$3.5 billion in General Fund for the SSI/SSP program, a 1.1 percent increase from the 2004 Budget Act. Beginning in April 2005, the monthly grant levels will increase to \$812 for seniors and individuals with disabilities and to \$1,437 for couples. Among the ten most populous states, California will continue to have the highest SSP payment, and among all states it will have the second highest payment.

- **In-Home Supportive Services**

The In-Home Supportive Services/Personal Care Services Program (IHSS/PCSP) enables eligible individuals to remain safely in their own homes in integrated community settings and prevents unnecessary and costly institutionalization. The program is supervised by the state and operated at the county level to benefit approximately 382,000 California residents (elderly persons and disabled adults and children). General Fund expenditures for the IHSS program grew 120 percent between 1998-99 and the 2004 Budget Act, even though caseload grew by only 63.5 percent. The primary reason for this disproportionate growth in costs is the increased cost per case resulting from increased provider wages and benefits.

Last year, the Governor successfully negotiated a federal waiver that allowed federal matching funds to apply to home-based services provided by loved ones. As a result, \$272.7 million in federal funds are available in 2005-06, saving the state \$179.6 million and counties \$93 million. Additional reforms were implemented last year to ensure that necessary, quality services are delivered. The Quality Assurance Initiative is estimated to reduce costs in 2005-06 by \$185.6 million in 2005-06, saving the state \$59.2 million and counties \$33.2 million.

Despite these cost-containing measures, over the last five years increases in providers' wages have driven program costs higher, threatening California's capacity to provide IHSS/PCSP services to all eligible individuals. In order to control rapidly

increasing costs and to ensure access to this program serving vulnerable populations is not limited, General Fund support for provider wages must be addressed.

Consistent with collective bargaining mandates, nine counties negotiated contracts to increase IHSS service provider wages and/or health benefits in 2004-05. Even though the counties negotiated these contracts, current law requires the state to pay 35 percent of the cost, while counties pay 15 percent and the federal government pays the 50 percent balance. This proposal maintains state participation in wages and in health benefits at the level of funding in the 2004 Budget Act for these nine counties, resulting in a General Fund savings of \$42.7 million annually.

More broadly, the Governor's Budget proposes reducing the state's participation in wages and benefits for IHSS care providers to the state minimum wage level of \$6.75 per hour, effective October 2005. This proposal affects the majority of counties and saves \$152.1 million General Fund in 2005-06 and \$216.8 million in future years. Counties have the option of reinvesting local savings (\$112 million from 2004-05 and \$93 million from 2005-06) obtained by the Administration under the IHSS waiver.

Maximizing Federal Funding for Prenatal Care

The Governor promised Californians that he would work to secure California's fair share of federal funding. By taking advantage of a federal regulation that allows states to receive federal matching funds for prenatal services for low-income women through the State Children's Health Insurance Program (SCHIP), the Governor's Budget assumes \$242 million in new federal funds. These funds will replace Proposition 99 (Tobacco Tax Initiative) and General Fund support for prenatal services provided through the Access for Infants and Mothers (AIM) program and the Medi-Cal state-only program for pregnant undocumented immigrant women. With federal approval, California will join at least five other states in securing federal funds for this purpose and can offset General Fund expenses and make resources available for other critical health care priorities.

During these fiscally challenging times, the new federal funds will allow California to free up limited General Fund dollars and declining tobacco tax revenues while still maintaining critical health care programs, serving hundreds of thousands of California's most vulnerable residents. As a result, funding will maintain essential services provided by such programs as Expanded Access to Primary Care, California Healthcare for Indigents and Breast Cancer Early Detection and Treatment.

Developmental Services Cost Containment

California is the only state in the nation that entitles individuals with developmental disabilities to receive all necessary services and supports. Since 1998-99, General Fund expenditures on regional center services have grown 175 percent, from \$648 million to \$1.9 billion, while caseload has grown by 36 percent. In addition to increased caseload, this high expenditure growth is due to increased utilization of services, increased costs per consumer served and costs associated with moving persons from developmental centers into the community.

While protecting this entitlement is a top priority for the Administration, the state must better manage rapidly increasing program costs so the entitlement can be maintained. In an effort to manage the rapidly increasing costs of services, a number of temporary cost containment measures were imposed in 2002-03. These measures include rate freezes for contracted services of transportation, supported living and day programs; rate freezes for respite providers; freezes on service-level increases for Community Care Facilities; and suspension of the start-up of new community programs. These measures have been successful in controlling the growth in costs. They were continued in 2003-04 and 2004-05 and are proposed again for 2005-06.

The above measures cannot be continued indefinitely if we are to sustain adequate services over the long term for existing and new regional center clients. However, rapidly increasing program costs must be contained to ensure the state's ability to maintain the entitlement to services. To that end, the Administration began enactment of permanent cost containment measures in the 2004-05 Budget with the Family Cost Participation Program. This program, effective January 2005, imposes a modest fee on families with incomes above 400 percent of the federal poverty level (\$75,400 per year for a family of four) for specified services purchased by regional centers for children 3 to 17 years old.

The 2005-06 Governor's Budget builds on the Family Cost Participation Program as a permanent cost containment strategy by proposing a number of reasonable, common-sense structural changes. These changes maintain the integrity of the Lanterman Act and will not result in waiting lists or impose categorical reductions or enrollment caps. The specific changes include:

- Using the least costly vendor who will meet the consumer's needs;
- Considering the family's responsibility for providing similar services to a minor child without disabilities when determining which services will be purchased;
- Giving preference for the purchase of services in a group setting, rather than individually, if appropriate;
- Preventing fraud by providing the consumer or family an annual statement of services purchased;
- Establishing an internal process to ensure all laws and regulations are followed, generic and other services are pursued and clinicians review all requests for specified services/supports;

- Purchasing supported living services only if the projected annual cost of the consumer's supported living arrangement does not exceed the average annual cost of supporting a consumer in a developmental center.

These changes will result in net General Fund savings of \$4.2 million in 2005-06, \$14.7 million in 2006-07 and \$25.2 million in 2007-08.

Additional Program Highlights

The California Department of Aging administers a broad array of home and community-based services, working primarily with Area Agencies on Aging that serve seniors, adults with disabilities and caregivers.

- **Maintains Full Funding:** The 2005-06 Governor's Budget recognizes that funding for older Californians is a priority and therefore contains no reductions and continues full support for the Older Californians Act. Key programs include the Nutrition Program, Senior Community Employment Services, Long-Term Care Ombudsman and Elder Abuse and Adult Day Care Program.

The Department of Alcohol and Drug Programs oversees a variety of alcohol and drug treatment and prevention programs. The Governor's Budget reflects a net increase of \$17.3 million (\$5.3 million General Fund increase) for substance abuse programs.

- **Access to Recovery Grant:** This new federal grant will provide \$7.6 million per year for three years for treatment vouchers to substance abusing 12 to 20 year olds.
- **Drug Medi-Cal:** Treatment services for an estimated 70,100 clients will be provided through an increase of \$9.4 million (\$5.5 million General Fund) above the 2004-05 Budget.

The Department of Child Support Services promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical and emotional needs of approximately 2.7 million children. The proposed budget for 2005-06 is \$1.4 billion (\$508.2 million General Fund).

- **Compromise of Arrears Program (COAP):** This program was created by AB 1752 (Chapter 225, Statutes of 2003) in an effort to increase support collected for families, increase reimbursements to the General Fund, improve performance on the federal performance measures and reduce arrears statewide. Initially, the Department anticipated statewide implementation in 2004; however, in response to lessons learned from four pilot project counties, implementation has been delayed until July 2005. The delay will allow the department, in conjunction with the Child Support Directors Association, to address issues identified in the pilot project to ensure program uniformity and consistency and to maximize reimbursement to the State General Fund.

The Department of Community Services and Development distributes federal funds to local agencies for programs that benefit 1.8 million low-income Californians and help improve their quality of life. The 2005-06 Governor's Budget maintains current funding for energy assistance programs.

- **Naturalization Services Program:** The Naturalization Services Program provides one-on-one citizen services to legal immigrants. The budget proposes to save \$1.5 million General Fund by eliminating this program, as similar services are available through the Department of Education.

The Department of Developmental Services is responsible for providing services and supports to promote the ability of persons with developmental disabilities to lead more independent, productive and healthy lives, per the Lanterman Developmental Disabilities Services Act. More than 210,000 persons with developmental disabilities are served through five developmental centers, two state-operated community facilities and 21 regional centers. Despite the severe fiscal crisis faced by the state, the Administration has made fully funding caseload growth and maintain services guaranteed by the Lanterman Act a priority.

- **Quality Management System:** A new Quality Management System will improve services and outcomes for consumers in the community and in developmental centers by establishing performance expectations for regional centers, developmental centers and providers; using data to measure performance in achieving those expectations; and taking steps to improve services where performance is not meeting expectations. The 2005-06 Budget includes \$522,000 (\$290,000 General Fund) to begin statewide development.
- **Increased Federal Financial Participation (FFP):** The budget includes increased FFP of \$78.5 million. Included is \$19.3 million for Targeted Case Management, which is increased federal matching funds for administrative activities regional centers already perform, and \$23.5 million due to the enrollment of additional consumers on the Home- and Community-Based Waiver.

The Emergency Medical Services Authority provides statewide coordination of emergency medical services (EMS), regulates the education, training and certification of EMS personnel, develops local guidelines for EMS and coordinates the state's medical response to disasters.

- **Improving Child Care Quality:** The Governor's Budget proposes substantial reforms to improve the quality of child care services provided to low-income children by creating incentives for providers to obtain additional training, including first aid, CPR and early childhood education development. As an important complement to the Administration's childcare reforms, the budget proposes that EMSA provide on a fee-supported basis, approval and oversight of the necessary First Aid, CPR and preventive health training for child care providers to improve the quality of child care provided.

- **California Poison Control System:** The Governor's Budget maintains the \$6.9 million appropriation for Poison Control Centers, supporting the system's capacity to serve more than 350,000 callers annually (50 percent of poison exposures affecting children age 5 or younger).
- **Medical Response to Terrorism:** The Budget includes new federal grant-supported investments to further strengthen the state's emergency medical response system. Grant funding from the Health Resources Services Administration of \$6 million will support statewide development of system-wide first responder (ambulance, hospital and clinic) capabilities. The federal Department of Homeland Security funding of \$250,000 for emergency response training uses a standardized curriculum in training first responders in terrorism response. Monitoring and analysis of terrorist threats that may affect the medical and health system will be implemented using federal Department of Homeland Security funding of \$311,000.

The Health and Human Services Data Center provides cost-effective information technology services on a round-the-clock basis to support the vital communications systems for health and social services programs throughout California. Funding will remain stable in 2005-06 at \$348 million.

The Department of Health Services works to protect and improve the health of the people of California. To advance its mission, the Department administers a broad array of public health programs and the Medi-Cal program for low-income individuals and families.

- **Binational Border Health Office:** The Budget proposes to eliminate General Fund support for the Office, saving \$694,000. Disease prevention and coordination activities between Mexico and California health officials will continue through established program liaisons in various public health programs. To support the Office's mission, \$500,000 in federal funds will remain.
- **HIV/AIDS Treatment and Prevention:** The Governor's Budget continues California's unparalleled support for HIV prevention and treatment programs and underscores its commitment to maintaining access to life sustaining medications for Californians living with HIV/AIDS. The budget increases funding for HIV/AIDS programs by \$20.1 million General Fund.
 - Nearly 30,500 individuals living with HIV/AIDS will continue to receive treatment under the AIDS Drug Assistance Program (ADAP). California's ADAP provides drug therapies to persons living with HIV/AIDS who have an annual income below \$50,000 and lack coverage for prescription drugs. ADAP services prolong the quality of life, minimize the related consequences of more serious illnesses, reduce more costly treatments and maximize the HIV-infected person's health and productivity.
 - California's contribution of state funds to ADAP far exceeds that of any other state in the nation. California's ADAP formulary is among the most

comprehensive in the country, as it assures client access to all federally approved antiretrovirals and other necessary drugs.

- The 2005-06 Budget will include an increase of \$8.8 million in rebates. As rebate dollars are an integral part of the ADAP budget, California has been a leader in collecting drug manufacturer rebates.
- **Children's Medical Services (CMS):** CMS programs serve nearly 39,000 low-income children with severe disabilities and more than 3,300 adults with chronic illness. The budget increases support for CMS programs by \$22.7 million (\$11.6 million General Fund), which includes the California Children's Services (CCS), the Child Health and Disability Prevention (CHDP) and the Genetically Handicapped Persons (GHPP) programs.
- **Medicare Modernization Act:** The federal Medicare Modernization Act (MMA) of 2003 establishes an outpatient prescription drug program for almost 40 million Medicare beneficiaries, including approximately 1 million individuals eligible for both Medicare and Medi-Cal ("dual eligibles"). Effective January 1, 2006, Medicare will assume responsibility for providing outpatient drug coverage for all dual eligibles in California. Those with incomes at or below 100 percent of the federal poverty level will be responsible for a co-payment of \$1 for generic drugs and \$3 for brand name drugs, while those with incomes above 100 percent of the federal poverty level will pay \$3 and \$5, respectively.

The MMA provides that the federal government will no longer provide Medicaid matching funds for drug categories covered by Medicare and requires states to pay the federal government a General Fund contribution to assist Medicare in the cost of covering the dual eligibles. Due to a number of factors, California will be required to pay approximately \$200 million more in General Fund per year to the federal government than the state would have otherwise paid were the state to provide drug benefits for dual eligibles in Medi-Cal. The budget assumes that, consistent with MMA, Medicare will assume responsibility for all drug coverage for dual eligibles effective January 1, 2006, and no General Funds will be allocated to provide drugs not covered by Medicare or to pay for any of the co-pays required by Medicare. Dual eligibles in nursing facilities or other institutions will be exempt from co-payments. Legislation will need to be enacted to implement changes to the Medi-Cal program that result from the MMA.

- **Additional Pharmacy Rebates:** Pharmaceutical rebates totaling \$20 million will be achieved as a result of a Medi-Cal review of various medications to treat heartburn and other gastro-intestinal disorders. The review found little difference among the various medications to treat these disorders and will retain two of the drugs currently on the formulary.

Managed Risk Medical Insurance Board (MRMIB) administers programs that provide health care coverage through private health plans to nearly one million Californians. The 2005-06 Budget includes approximately \$1 billion in total funding to provide coverage for pregnant women, medically uninsurable individuals and children.

- **Enhanced staffing for the Healthy Families Program:** The budget includes an additional \$2.5 million and 27.5 positions. These positions and funds will allow MRMIB to process application appeals more quickly and retain more children in the program during the annual enrollment process.

The Department of Mental Health (DMH) provides oversight and leadership to community mental health programs and provides direct services to individuals who are mentally ill through four state hospitals and two inpatient psychiatric programs. The Budget includes \$2.7 billion (\$1 billion General Fund), an increase of \$171.8 million (\$78.1 million General Fund). State support for mental health programs were protected, in part, by the passage of Proposition 63, the Mental Health Services Act.

- **Coalinga State Hospital (CSH):** The first new state hospital to be opened in more than 50 years, CSH is a 1,500-bed high-security state mental hospital scheduled to open in September 2005. The new facility is being built to accommodate the growing number of forensic patients, including those in the Sexually Violent Predator (SVP) and Mentally Disordered Offenders programs, as well as individuals judged to be guilty by reason of insanity and incompetent to stand trial. More than 680 patients will reside at CSH in the first year.
- **Early and Periodic Screening, Diagnosis and Treatment Program:** The Budget contains a \$76.7 million increase (\$43 million General Fund) that reflects additional projected claims over the current year. The program provides for treatment of mental illness for approximately 170,000 Medi-Cal eligible persons under age 21.
- **Restructure Treatment of Sexually Violent Predators (SVPs):** In order to more efficiently and effectively provide for the varying custody and supervision needs of SVPs, the Administration proposes to restructure the supervision and treatment services to be provided at CSH, for a savings of \$6 million General Fund in 2005-06, growing to \$11 million in 2006-07.
- **Local Custody of Precommitment SVPs:** The budget proposes to require all precommitted SVPs to remain in local custody until they are committed to a state mental hospital, for a savings of \$9.2 million General Fund.

The Office of Statewide Health Planning and Development (OSHPD) promotes health care accessibility by analyzing California's health care infrastructure, promoting a diverse and competent health care workforce, providing information about healthcare outcomes, assuring the safety of buildings used in providing healthcare, ensuring loans to encourage the development of health care facilities and facilitating development of sustained capacity for communities to address local health care issues.

- **Hospital Seismic Retrofitting:** Due to increases in hospital construction and upcoming seismic retrofit deadlines for health care facilities, OSHPD is conducting ongoing and new efforts to speed the approval of the planning, construction and rehabilitation of hospitals throughout the state. To provide timely approval of building plans and to avoid costly construction delays, OSHPD has made significant progress in recruiting technical professional experts, such as structural engineers and fire and life safety officers, for the planning and construction of health facilities projects, resulting in faster project review and approval. Early evidence from recent improvements shows a 33 percent decrease in turnaround time for several major construction projects.

In addition, OSHPD will sponsor legislation to further streamline the approval process by, among other things, allowing hospitals to contract with an independent plan reviewer for large hospital construction projects. OSHPD is also developing a state-of-the-art information technology project management and tracking system to improve the review and approval process. The system will provide online access for project application submission and real-time project status updates for health facility personnel. Finally, OSHPD plans to conduct regular seminars for the hospital and construction industry to discuss best practices and improve communications with customers.

The Department of Rehabilitation is responsible for assisting people, particularly those with significant disabilities, to obtain and retain employment and to maximize their ability to live independently in their communities. The department's vocational rehabilitation program, one of the largest in the country, annually serves more than 100,000 Californians with disabilities. The Administration has placed a priority on continuing funding at the current level of \$345 million (\$57 million General Fund) for these services.

The Department of Social Services (DSS) is one of the largest public social service entities in the nation, providing grants and services to more than 2.7 million of the most needy and vulnerable California children and adults each year. The Administration recognizes the value of programs administered and overseen by the Department and their importance to ensuring a sufficient safety net for state residents in need of assistance. The 2005-06 Budget invests a total of \$4.8 billion in services to children and approximately \$7 billion for vulnerable adults and disabled persons.

In addition to the savings highlighted in the previous section, additional reductions are included in the DSS budget:

- **Eliminate Employment Services Augmentation:** A savings of \$50 million will result from eliminating this one-time legislative augmentation for employment services. Counties have not fully spent available resources in previous years. The CalWORKs budget will continue to provide a \$191.9 million augmentation for employment services, enabling counties to provide services to move recipients from public aid to employment.
- **Make Positive and Negative Adjustments to County Funds:** While counties historically receive increases for current year caseload growth, funds are currently not reduced when estimates result in lower costs. Modifying this practice will save \$43 million.
- **Reduce Current Year Tribal TANF Expenditures:** Employment services within tribal entities are anticipated to decline and result in \$5 million in savings.

APPENDIX A

List of Solutions

ISSUE	GENERAL FUND SAVINGS (Dollars in millions)
<u>Department of Community Services and Development:</u>	
Eliminate Naturalization Services Program	\$1.5
Total	\$1.5
<u>Department of Developmental Services:</u>	
Redirect federal funds from DSS	\$60.0
Implement Cost Containment Proposals	\$4.2
Expand existing Self-Directed Services	\$1.3
Total	\$65.5
<u>Department of Health Services:</u>	
Increase federal funding for prenatal care	\$191.0
Additional Medi-Cal pharmacy rebates (heartburn medication)	\$20.0
Redesign Medi-Cal Program	\$12.3
Increase AIDS Drug Assistance Program rebates	\$8.8
Eliminate Office of Binational Border Health; continue cooperation between Mexico and California	\$0.694
Total	\$232.794
<u>Department of Mental Health:</u>	
Maintain Sexually Violent Predator Pre-Commitments in county protection	\$9.2
Restructure Sexually Violent Predators treatment services	\$6.0
Total	\$15.2

APPENDIX A

List of Solutions

ISSUE	GENERAL FUND SAVINGS (Dollars in millions)
<u>Department of Social Services:</u>	
Reduce CalWORKs grants	\$212.3
Suspend SSI/SSP State Cost of Living Adjustments (COLAs)	\$174.2
Suspend CalWORKs COLA	\$163.8
Roll-back state participation in In-Home Supportive Services (IHSS) provider wages to minimum wage (\$6.75/hour)	\$152.1
Capture General Fund savings equal to federal SSI COLA	\$84.7
Reduce Earned Income Disregards	\$79.5
Rescind employment services augmentation	\$50.0
Offset current year expenditure changes	\$42.9
Maintain IHSS wages at 2004 level	\$42.7
Implement CalWORKs Pay for Performance	\$22.2
Strengthen CalWORKs work requirements	\$12.0
Reduce Tribal TANF funding	\$5.0
Total	\$1,041.4
<u>Managed Risk Medical Insurance Board:</u>	
Increase funding for prenatal care for Access for Infants and Mothers program	\$51.0
Total	\$51.0
GRAND TOTAL - SAVINGS	\$1,407.394

**Grand Total does not reflect an offset to account for HHS budget increases.*